

**Avon Lake City School District
Lorain County**

**Fiscal Watch
Termination**

Local Government Services Division

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
FISCAL WATCH TERMINATION**

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FISCAL WATCH TERMINATION

Pursuant to a request to the Auditor of State by the Avon Lake City School District Board of Education to remove the District from Fiscal Watch, the Auditor of State has determined that the Avon Lake City School District has met the conditions set forth in the Ohio Department of Education's "Guidelines for Release from Fiscal Watch." The Avon Lake City School District's status of Fiscal Watch is hereby terminated as of June 23, 2000.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to Robert J Berner, President of the Board of Education of the Avon Lake City School District, Daniel B. Ross, Ph.D., Superintendent of the Avon Lake City School District, Thomas W. Johnson, Director of Budget and Management, Vincent M. Urbin, Mayor of the City of Avon Lake, and Dr. Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

June 23, 2000

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Section 3316.03, Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal watch if the Auditor of State determines that the district has met all of the conditions prescribed in Section 3316.03(A). The conditions are summarized as follows:

- An operating deficit has been certified by the Auditor of State that exceeds eight percent of the district's general fund revenue for the preceding fiscal year.
- The unencumbered cash balance of the general fund, reduced by any advance of property taxes, was less than eight percent of the district's general fund expenditures for the preceding fiscal year.
- A levy has not been passed by the voters that will raise enough additional revenue in the succeeding year that will result in the first two conditions not being met in the succeeding year.

The analysis conducted of the Avon Lake City School District dated September 27, 1996 for the purpose of determining whether the District met the conditions outlined above resulted in the Auditor of State certifying an operating deficit for the general fund in the amount of \$1,674,000. This amount exceeded eight percent of the general fund revenues of the prior fiscal year. The Avon Lake City School District's unencumbered cash balance for the preceding fiscal year was \$327,000 which was less than eight percent of the preceding fiscal year expenditures. Additionally, the District had not passed a levy as of September 27, 1996 that would eliminate the first two conditions. As a result, the Auditor of State declared the Avon Lake City School District to be in fiscal watch as defined by Section 3316.03(A), Revised Code on October 31, 1996.

GUIDELINES FOR REMOVAL FROM FISCAL WATCH

The procedures for removing a district from fiscal watch are set forth in "Guidelines for Release from Fiscal Watch," developed by the Ohio Department of Education. The guidelines permit a district to submit a request for release from fiscal watch in the fiscal year following the fiscal year in which the Auditor of State designated the district in fiscal watch. A district may not request release from fiscal watch in the same fiscal year in which the Auditor of State made the designation. Additionally, a district may not request release from fiscal watch until the State Superintendent of Public Instruction has approved the financial recovery plan of the district.

The steps for districts seeking release are as follows:

1. The district must request release from fiscal watch by submitting a letter and board resolution requesting such a release to the Auditor of State and the State Superintendent of Public Instruction.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

GUIDELINES FOR REMOVAL FROM FISCAL WATCH (continued)

2. The district must prepare a financial forecast for the current fiscal year for the purpose of demonstrating whether the fiscal watch condition has been eliminated. The Auditor of State will conduct an examination of the one-year financial forecast of the district to insure that the district no longer meets the criteria identified in Section 3316.03(A).
3. The Department of Education will conduct a separate financial analysis and an in-depth review of the current financial plan to insure that the district will avoid future fiscal watch criteria.
4. In concurring on the release, the Auditor of State and State Superintendent of Public Instruction will have satisfied themselves of the following:
 - A. **Fiscal Watch Condition** - The district no longer meets the criteria for fiscal watch outlined in Section 3316.03(A), Revised Code.
 - B. **Financial Recovery Plan** - objectives of the financial recovery plan are being met or are in the process of being met and it appears the district will remain out of fiscal watch for the next five years as demonstrated in the financial forecast prepared by the district.
 - C. **Accounting Policies** - policies for sound accounting, purchasing and reporting are adopted and are in the process of being implemented.
5. The Auditor of State will issue a notice of termination of fiscal watch if the Auditor of State and the Department of Education concur that the above conditions have been satisfied.

ANALYSIS OF WORK PERFORMED

Fiscal Watch Conditions

Pursuant to the request of the Board of Education of the Avon Lake City School District, Lorain County, Ohio, the Auditor of State examined the District's financial forecast for the fiscal year ending June 30, 2000 for the purpose of determining whether the fiscal watch condition has been eliminated.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Fiscal Watch Conditions (continued)

Our examination of the District's financial forecast for the year ended June 30, 2000 disclosed the following:

1. At June 30, 2000, the general fund is forecasted to have a positive unreserved fund balance in the amount of \$2,819,000.
2. Since all three fiscal watch criteria must exist in order to remain in fiscal watch status no further analysis was performed.

In summary, the fiscal watch condition has been corrected.

Financial Recovery Plan

We obtained a copy of the latest financial plan of the District and were able to summarize the progress of implementation of the provisions of the financial plan. The progress is as follows:

1. Passage of a new 3.90 mill property tax levy in November 1996;
2. Reductions were made in some support staff areas;
3. Personnel salaries were frozen by negotiations with the School District's unions and were increased approximately 2.7 percent after passage of the additional operating levy in 1996;
4. No elimination of teaching positions was made;
5. No programs were eliminated; and
6. No buildings were closed.

The District also provided the Auditor of State and the Department of Education with a five year forecast for the period ending June 30, 2004 to demonstrate whether the District will remain out of fiscal watch. Our review of this forecast disclosed the following:

1. The five year financial forecast demonstrates that the District has included increases/decreases in revenues based upon anticipated growth and historical information. The five year financial forecast also reflects increases in expenditures based upon historical trends and anticipated spending. The general fund is forecasted to have a positive unreserved fund balance through fiscal year 2003 as reflected in the District's five year financial forecast.

**AVON LAKE CITY SCHOOL DISTRICT
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FISCAL WATCH TERMINATION ANALYSIS

2. The forecast reflects a deficit unreserved fund balance in fiscal year 2004. Events may occur that change this forecast that could eliminate the deficit. The Board of Education will take steps to eliminate the projected deficit by attempting to secure additional revenues, make cutbacks as needed, or to utilize the budget reserve to satisfy any projected deficit.

In summary, it appears from our review that the objectives of the financial recovery plan are being met and that the district will remain out of fiscal watch for the next five years.

Accounting Policies

As part of the termination process, we reviewed audit reports issued by the Auditor of State's Office, discussed any accounting deficiencies with Auditor of State personnel, and through inquiry of the District officials and observation of the District records determined that the financial accounting and reporting system is functioning adequately. We also reviewed monthly monitoring reports of School District activity prepared by the Ohio Department of Education. The District currently:

1. Performs monthly reconciliations.
2. Deposits receipts in the bank on a timely basis.
3. Properly accounts for the receipt of merchandise.
4. Does not receive goods on canceled purchase orders.
5. Maintains records for consumable inventory and fixed assets.
6. Files the tax budget with the Lorain County Budget Commission on a timely basis.
7. Reported the cash fund balances and outstanding encumbrances to the Lorain County Budget Commission on a timely basis for the year ended June 30, 1999.
8. Continuously monitors revenue flows and expenditure levels by maintaining an up-to-date five year forecast.
9. Executes Section 5705.412, Revised Code certifications for all appropriation measures and major contracts.
10. Follows the provisions of the Ohio Revised Code and Ohio Administrative Rules throughout the budgetary process. The District adopts annual appropriations, files all necessary budgetary information with the Lorain County Auditor and the Ohio Department of Education, and issues proper documents with appropriate approval for all purchases.

**AVON LAKE CITY SCHOOL DISTRICT
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FISCAL WATCH TERMINATION ANALYSIS

Accounting Policies (continued)

11. Maintains all financial information including revenue, expenditure, payroll and EMIS information. The District utilizes the Uniform School Accounting System through Lake Erie Educational Computer Consortium (LEECA), its computer consortium.
12. Submits required reports to the Ohio Department of Education on a timely basis.
13. Prepares annual financial reports in accordance with generally accepted accounting principles which are audited annually. The financial statements for the year ending June 30, 1999 were audited by the Auditor of State's Office and we expressed a unqualified opinion on the financial statements in a report dated November 19, 1999.

In summary, pursuant to the review of the aforementioned areas, the District appears to have policies in place for sound accounting, purchasing and reporting procedures.

CONCLUSION

The financial forecast for the fiscal year ending June 30, 2000 has been examined by the Auditor of State and the opinion states that the forecasted schedules conform with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants (AICPA) and the underlying assumptions provide a reasonable basis for the Board's assumptions. In addition, the District's five year forecast for the years ending June 30, 2004 has been reviewed by the Auditor of State and the Ohio Department of Education as part of the termination analysis. The Auditor of State and the Ohio Department of Education concur that the information presented in these forecasts demonstrates that the District will remain out of fiscal watch for the five year period ending June 30, 2004, the objectives of the financial recovery plan are being met and policies for sound accounting, purchasing and reporting are adopted and are in the process of being implemented. Based on this analysis, the Auditor of State's Office has determined that the fiscal watch may be terminated.

It is understood that this report's determination is for the use of the District's Board of Education, the Superintendent of the Avon Lake City School District, the Director of Budget and Management, the Mayor of the City of Avon Lake, the State Superintendent of Public Instruction, and the Auditor of the State of Ohio, and others as designated by the Auditor of State, and is not to be used for any other purpose.

**AVON LAKE CITY SCHOOL DISTRICT
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FISCAL WATCH TERMINATION ANALYSIS

DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 1997, 1998 AND 1999 ACTUAL;
FISCAL YEARS ENDING JUNE 30, 2000, 2001, 2002, 2003 AND 2004 FORECASTED
GENERAL FUND

	Fiscal Year 1997 Actual	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Forecasted	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted
Revenues								
General Property Tax	\$11,999,000	\$12,910,000	\$13,135,000	\$13,495,000	\$13,868,000	\$14,250,000	\$14,642,000	\$15,044,000
Tangible Personal Property Tax	2,674,000	3,093,000	3,635,000	3,834,000	3,937,000	3,898,000	3,860,000	3,822,000
Unrestricted Grants-in-Aid	1,090,000	1,194,000	1,272,000	1,264,000	1,264,000	1,264,000	1,264,000	1,264,000
Restricted Grants-in-Aid	18,000	260,000	70,000	26,000	26,000	26,000	26,000	26,000
Property Tax Allocation	1,027,000	1,126,000	1,166,000	1,194,000	1,316,000	1,353,000	1,390,000	1,428,000
All Other Revenues	474,000	600,000	609,000	611,000	578,000	595,000	613,000	631,000
Total Revenues	17,282,000	19,183,000	19,887,000	20,424,000	20,989,000	21,386,000	21,795,000	22,215,000
Other Financing Sources								
Proceeds from Sale of Notes	150,000	1,796,000	1,809,000	0	0	0	0	0
Advances In	2,000	0	0	0	0	0	0	0
All Other Financing Sources	0	2,000	5,000	2,000	2,000	2,000	2,000	2,000
Total Other Financing Sources	152,000	1,798,000	1,814,000	2,000	2,000	2,000	2,000	2,000
Total Revenues and Other Financing Sources	17,434,000	20,981,000	21,701,000	20,426,000	20,991,000	21,388,000	21,797,000	22,217,000
Expenditures								
Personal Services	11,265,000	11,876,000	12,638,000	13,440,000	14,112,000	14,676,000	15,264,000	15,874,000
Employees' Retirement/Insurance Benefits	3,307,000	3,508,000	3,094,000	3,728,000	3,964,000	4,122,000	4,287,000	4,459,000
Purchased Services	1,224,000	1,548,000	1,354,000	1,782,000	1,835,000	1,891,000	1,947,000	2,006,000
Supplies and Materials	386,000	528,000	567,000	652,000	682,000	702,000	724,000	745,000
Capital Outlay	187,000	177,000	38,000	120,000	83,000	86,000	89,000	91,000
Debt Service:								
Principal-Notes	1,845,000	1,090,000	2,665,000	0	0	0	0	0
Interest and Fiscal Charges	86,000	45,000	103,000	0	0	0	0	0
Other Objects	345,000	355,000	363,000	414,000	426,000	439,000	452,000	466,000
Total Expenditures	18,645,000	19,127,000	20,822,000	20,136,000	21,102,000	21,916,000	22,763,000	23,641,000
Other Financing Uses								
Operating Transfers Out	682,000	0	0	0	0	0	0	0
Total Expenditures and Other Financing Uses	19,327,000	19,127,000	20,822,000	20,136,000	21,102,000	21,916,000	22,763,000	23,641,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(1,893,000)	1,854,000	879,000	290,000	(111,000)	(528,000)	(966,000)	(1,424,000)
Cash Balance July 1	2,427,000	534,000	2,388,000	3,267,000	3,557,000	3,446,000	2,918,000	1,952,000
Cash Balance June 30	534,000	2,388,000	3,267,000	3,557,000	3,446,000	2,918,000	1,952,000	528,000
Estimated Encumbrances June 30	429,000	338,000	458,000	452,000	452,000	452,000	452,000	452,000
Reservation of Fund Balance								
Textbooks and Instructional Materials	0	0	1,000	0	0	0	0	0
Budget Reserve	0	114,000	114,000	286,000	463,000	463,000	463,000	463,000
Bus Purchases	0	0	24,000	0	26,000	0	26,000	0
Subtotal	0	114,000	139,000	286,000	489,000	463,000	489,000	463,000
Unreserved Fund Balance (Deficit) June 30	\$105,000	\$1,936,000	\$2,670,000	\$2,819,000	\$2,505,000	\$2,003,000	\$1,011,000	(\$387,000)

See accompanying summary of significant forecast assumptions and accounting policies.

Note: Schedule includes general fund, textbook fund and any portion of the debt service fund related to general fund debt.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Nature of Presentation

This financial forecast presents, to the best of the Avon Lake City School District Board of Education's knowledge and belief, the expected revenues, expenditures and changes in fund balance of the general fund for the forecast period. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and their expected course of action as of December 14, 1999, the date of this forecast. The forecast, which is designed to present the revenues, expenditures and changes in fund balance, was prepared and submitted to the State Department of Education as required under Section 5705.391(B), Revised Code. The forecast is being used for the purpose of determining whether the School District will remain out of fiscal watch through the end of fiscal year 2004 and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

1. General Assumptions

The Avon Lake City School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations.

The forecast includes the revenue and expenditure activity of the general fund, textbook subsidy fund, and that portion of the debt service fund relating to general fund debt. Transfers in and transfers out that were made between these funds were eliminated.

The forecast contains those expenditures the Board has determined to be necessary to provide for an adequate educational program.

2. Revenue and Other Financing Source Assumptions

Property Taxes

Property taxes consist of real estate, public utility real and personal property, tangible personal property, and trailer taxes. Advances may be requested from the Lorain County Auditor as the tax is collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer's fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

General Property Tax (Real Estate)

The general property tax revenue amounts are based upon tax revenues expected to be received from the Lorain County Auditor. Included in this revenue source are real estate tax revenues only. Amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account.

The forecast revenues for fiscal year 2000 are based on the most recent information provided by the Lorain County Auditor. Based upon these estimates, the fiscal year 2000 forecasted amount includes the effects of property valuations.

The School District tax levies are continuing levies, therefore no levy will expire during fiscal years 2001 through 2004. Fiscal years 2001 through 2004 are forecast to increase approximately 2.75 percent annually based on historical collections, new valuations once every three years, and increases for new construction.

Tangible Personal Property Tax

This revenue source consists of tangible personal property tax revenue. The first \$10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenue lost due to this exemption. The amount of this exemption is included in the forecasted tangible personal property tax revenue account.

The School District has assumed in the forecast that it will be held harmless with respect to the changes implemented with regard to the taxing structure of public utilities (namely electric companies). Accordingly, no adjustments have been made to reflect any potential reduction of property tax revenues during the forecast period.

Additionally, the Ohio legislature passed and the Governor approved legislation during 1999 calling for the reduction in the assessed valuation percentage for the inventory of the personal property tax to be one percent a year over the next 25 year period. The School District has incorporated a reduction in the personal property tax collections beginning in fiscal year 2002 through fiscal year 2004 to reflect the change in property valuation.

Tangible personal property tax revenues for fiscal year 2000 are based upon confirmation received from the Lorain County Auditor. Based upon these estimates, the School District anticipates receiving \$3,834,000 in tangible personal property tax revenue, including the tangible personal property tax exemption revenue, an increase of \$199,000 over the prior fiscal year. The increase results from higher tangible personal property inventories held by businesses in the area.

Tangible personal property tax revenues are forecasted to increase approximately two and one-half percent in fiscal year 2001 based on historical trends. The remaining three years will decrease approximately one percent per year based on the changes adopted by the Ohio legislature.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semi-monthly basis. Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section of the forecast.

This revenue source includes formula aid, special education aid, training and experience of classroom teachers funding, extended service, gifted aid, transportation, and special education transportation revenues received from the State Department of Education, Division of School Finance. The forecast reflects a decrease in fiscal year 2000 from the prior fiscal year due to the loss of the driver's education subsidy. Fiscal years 2001 through 2004 project revenue to remain consistent with fiscal year 2000 due to the uncertainty of State funding levels.

Restricted Grants-in-Aid

Restricted grants-in-aid consist of a bus purchase allowance. The School District anticipates the continuation of State funding from these sources in fiscal years 2000 through 2004.

Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the above (rollback and homestead).

For the forecast period property tax allocation revenue is forecasted to increase in direct proportion to the real property tax revenues.

All Other Revenues

This revenue source includes investment earnings, tuition, school facilities rentals, classroom materials and fees, fines, refund of prior year expenditures, and miscellaneous revenues. Fiscal year 2000 is forecasted at \$611,000, an increase of \$2,000 over the prior fiscal year.

Fiscal year 2001 is projected to decrease slightly based on projected declines in fiscal year 2000 for investment earnings and refund of prior years expenditures. The School District expects other revenues to increase approximately three percent annually during fiscal years 2002 through 2004 due to increases in tuition rates.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Proceeds of Notes

The School District assumes no revenues from the proceeds of notes for the fiscal years 2000 through 2004.

3. Expenditure Assumptions

The fiscal year 2000 through 2004 anticipated expenditures and other financing uses are based on the following:

Personal Services

The cost of personal services, which includes salaries and wages for certified and classified staff, supplemental contracts, substitutes, severance pay, board members, overtime, and student workers costs, are based on 24 pays for each fiscal year of the forecast period and the terms of the existing ratified union contracts as amended. Current staff positions, including those expected to be filled, are expected to remain constant for the forecast period. Each fiscal year's forecasted expenditures for personal services allow for step increases, educational moves, and increases allowed under current and future negotiated union contracts.

Employees' Retirement/Insurance Benefits

The most significant benefits provided for the Avon Lake City School District employees include retirement, health care, medicare and workers' compensation coverage. For the forecast period, fringe benefits average 28 percent of salaries.

Retirement costs assume the current contribution rate of 14 percent for all programs. Payments are made based upon estimated salary and wage costs. Adjustments resulting from over/underestimates are prorated over the next fiscal year. Retirement costs are expected to grow in relation to the growth in salaries and wages.

Health care costs are based on the coverage terms of the existing health insurance contracts and the anticipated number of employees participating in the program and annual health care premium increases. Medicare benefits are based upon actual results of fiscal year 1999 and anticipated payroll costs for new staff over the forecast period. Workers' compensation premium costs are based on the District's current rate and the anticipated salaries for fiscal years 2000 through 2004. The School District believes that all scheduled payments will be made in the appropriate fiscal year.

**AVON LAKE CITY SCHOOL DISTRICT
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SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Purchased Services

Purchased service expenditures include professional services, property services, utilities, tuition and transportation costs. The School District is anticipating a \$428,000 increase in purchased services for fiscal year 2000. This increase is due primarily to increased costs for professional and technical services. Fiscal years 2001 through 2004 will see expenditures increasing approximately three percent annually based on inflation.

Supplies and Materials

Expenditures for supplies and materials include general and office supplies, teaching aids, dispensary supplies, software materials, textbooks, and supplemental textbooks. Fiscal year 2000 forecasted expenditures are anticipated to increase \$85,000 for supplies and materials attributed to increased computer supplies, as well as textbook and library book expenditures. Fiscal years 2001 through 2004 include increases for textbook purchases, instructional materials, and other expenditures for non-instructional purchases based on an annual three percent inflationary increase.

Capital Outlay

Capital outlay expenditures include buildings improvements, equipment purchases and upkeep, and school bus acquisitions. Capital outlay expenditures are forecasted for fiscal year 2000 in the amount of \$120,000. The majority of the planned expenditures are for furniture and equipment, a replacement bus and various computer and other replacement equipment items.

Capital outlay expenditures for fiscal year 2001 are based on planned new and replacement capital outlay expenditures. For fiscal years 2002 through 2004, capital outlay expenditures are based on fiscal year 2001 expenditures, and are anticipated to increase approximately three percent annually for inflation.

Debt Service

The School District does not have any debt service payments in fiscal year 2000 and does not anticipate any during the remaining forecast period.

Other Objects

This account includes dues, fees, liability insurance, judgements, and award costs. The amount forecasted for fiscal year 2000 is \$414,000, an increase of \$51,000 from the prior fiscal year due primarily to increases county auditor and treasurer fees.

The forecasted amounts for fiscal years 2001 through 2004 are based on increases for auditor and treasurer fees based on increasing tax collections.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Other Uses

The School District does not anticipate making any transfers out or advances out to subsidize other funds during forecast period.

4. Encumbrances

Encumbrances for the fiscal year ended June 30, 1999 were \$458,000 and are forecasted at \$452,000 at June 30, 2000.

For fiscal years 2001 through 2004, encumbrances are based upon a four year average of fiscal years 1997 through 2000, of \$452,000.

5. Reservation of Fund Balance

Textbooks and Instructional Materials

The School District had a carryover balance of \$1,000 in the textbook subsidy fund at the close of fiscal year 1999, which has been expended during fiscal year 2000. The required three percent contribution for fiscal year 2000 for the textbooks and instructional materials set aside amounted to \$515,000. The School District has passed a unanimous Board Resolution and obtained the necessary approvals to appropriate these funds for other purposes for fiscal year 2000; therefore, the set aside for fiscal year 2000 will not be required.

During the forecast years of 2001 through 2004, the District anticipates qualifying expenditures to equal the set-aside requirement; therefore, no balance is projected for a reserve.

Capital Improvements

The required three percent contribution for fiscal year 2000 for the capital improvements and maintenance set aside amounted to \$515,000. The set aside is completely offset by the proceeds from a permanent improvement levy adopted under Section 5705.21 of the Ohio Revised Code. The levy will generate approximately \$641,000 in fiscal year 2000.

The School District has a 1.5 mill capital improvement levy expiring at the end of 2000 with collections continuing through 2001. The School District intends to make every effort to renew this levy.

During the forecast years of 2001 through 2004, the District anticipates proceeds from the levy and qualifying expenditures to equal or exceed the set-aside requirement; therefore, no balance is projected for a reserve.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Budget Reserve

The School District received a refund from the Bureau of Workers' Compensation in fiscal year 1998. This refund was required under Section 39 of House Bill 770 to be part of the five percent set aside reserve balance. Therefore, the refund of \$114,000 received from the Bureau of Workers' Compensation has been reserved for budget stabilization.

A contribution for budget stabilization is required if the base for the prior year grew by at least three percent, unless the School District is in a state of fiscal watch. Since the School District is currently in fiscal watch, this set aside was not required in fiscal years 1999 or 2000. However, since Avon Lake City School District has the funds available and its base grew by 4.98 percent, the School District intends to fund the budget reserve during fiscal year 2000. The additional set aside for the budget reserve is planned at \$172,000 for fiscal year 2000, making the total budget reserve \$286,000.

The School District projects increases in the revenue base of at least three percent during fiscal year 2001. The School District forecasts the set aside requirement to be \$177,000 at the end of fiscal year 2001, increasing the budget reserve to \$463,000.

The District does not project growth of at least three percent in fiscal years 2002, 2003, and 2004; therefore, the reserve will remain constant for the balance of the forecast period.

Bus Purchases

The School District had a carryover bus purchase set aside balance of \$24,000 at the end of fiscal year 1999 and received an additional \$26,000 in bus purchase allowance during fiscal year 2000. The School District will spend the entire amount for a bus purchase during fiscal year 2000.

The School District anticipates receiving \$26,000 annually and anticipates purchasing a bus in fiscal year 2002 and in fiscal year 2004. Therefore, the School District will have a reserved balance of \$26,000 at the end of FY 2001, none at the end of FY 2002, a reserved balance of \$26,000 at the end of FY 2003, and none at the end of FY 2004.

6. Levies

The School District has a 1.5 mill capital improvement levy expiring at the end of 2000 and intends to make every effort to renew this levy. The School District plans to propose a new operating levy in 2001.

7. Pending Litigation

There are currently no outstanding issues that would be deemed or interpreted as legally threatening at the time of this forecast.

**AVON LAKE CITY LOCAL SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts and disbursements which is consistent with the required budget basis (non-GAAP) of accounting which is the same as that used to prepare the historical budgetary statements for the years ended June 30, 1997, 1998, and 1999. Under this system, certain revenue and related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting and to make appropriations for budgetary funds. The appropriations are made by the Board of Education to their classification of accounts and are restricted for such purpose until expended or amended by the Board.

B. Investments

Investment procedures are restricted by the provisions of the Ohio Revised Code. The School District pools cash from all funds for investment purposes. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

C. Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund

The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds

To account for the proceeds of specific revenue sources (other than expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capital Project Funds

To account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Debt Service Funds

To account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest. According to governmental accounting principles, the Debt Service Fund accounts for the payment of debt for governmental funds only. Under Ohio law, the debt service fund may be used to account for the payment of debt for both governmental and proprietary funds.

Proprietary Funds

Enterprise Funds

To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds

To account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Non-expendable Trust Funds, (c) Pension Funds, and (d) Agency Funds.

**AVON LAKE CITY SCHOOL DISTRICT
LORAIN COUNTY**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Budgetary Process

Budget

A budget of estimated cash receipts and disbursements is submitted to the Lorain County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances

The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

E. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these fixed assets as the purpose of the financial statements for the general governmental services is to report the expenditure of resources, not costs.